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ONE NOTE FROM OER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW
ENDING 16 FEBRUARY 1978. REQUEST ARTICLE BE PASSED TO AMBASSADOR,
DCM, ECONOMIC SECTION AND OTHER WORKING LEVEL STATE OFFICERS.

US-CHINA TRADE: UPTURN IN 1977.

1. RENEWAL OF US AGRICULTURAL DELIVERIES LATE IN 1977
REVERSED THE TWO-YEAR DECLINE IN US EXPORTS TO CHINA. US EXPORTS
LAST YEAR ROSE TO \$172 MILLION FROM \$135 MILLION IN 1976. PEKING
POSTED ANOTHER SURPLUS ALTHOUGH US IMPORTS FROM CHINA INCREASED
BY ONLY \$203 MILLION.
2. AMERICAN AGRICULTURAL EXPORTS CONSISTING OF COTTON, SOY-
BEANS, SOYBEAN OIL, AND TALLOW TOTALED \$64 MILLION LAST YEAR
COMPARED WITH NONE IN 1976. OF THIS TOTAL, \$42 MILLION WORTH OF
SOYBEANS AND SOYBEAN OIL WERE SHIPPED UNDER OPTIONAL ORIGIN
CONTRACTS WHEN BRAZILIAN SUPPLIES WERE INADEQUATE. EXPORTS OF
NONAGRICULTURAL GOODS WERE DOWN \$27 MILLION FROM THE 1976 LEVEL,
WITH THE CHINESE BUYING LESS US MACHINERY AND METALS, IN PARTICULAR
ALUMINUM. THE SMALL INCREASE IN US IMPORTS FROM CHINA COMPARED
WITH THE TREND OF PREVIOUS YEARS PROBABLY REFLECTS SOME SHORTAGES
OF CHINESE GOODS AND PERHAPS SOME SLOWDOWN IN SALES TO THE US
MARKET BY CHINA OF SENSITIVE ITEMS SUCH AS TEXTILES AND APPAREL.
3. US-CHINA TRADE IS EXPECTED TO SHOW FURTHER GAINS IN 1978
AS PART OF AN OVERALL EXPANSION OF CHINESE TRADE. US IMPORTS WILL
LIKELY RISE TO \$225 MILLION WHILE EXPORTS WILL REACH AT LEAST \$250
MILLION, MOVING THE BILATERAL TRADE BALANCE BACK INTO A US SURPLUS.
DELIVERIES OF US MACHINERY AND EQUIPMENT SHOULD MORE THAN DOUBLE
AS A RESULT OF THE SPATE OF CONTRACTS SIGNED LAST YEAR FOR A WIDE
VARIETY OF OIL DRILLING AND EXPLORATION EQUIPMENT, MACHINE TOOLS,
ELECTRONIC EQUIPMENT, AND SPARE PARTS FOR EQUIPMENT PREVIOUSLY
PURCHASED. CONTRACTS FOR US COTTON CALL FOR DELIVERY OF MORE

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THAN 200,000 BALES WORTH AROUND \$50 MILLION, WITH ADDITIONAL SALES LIKELY. SALES OF OTHER AGRICULTURAL PRODUCTS SUCH AS SOYBEANS, SOYBEAN OIL, AND GRAIN WILL DEPEND ON THE SUCCESS OF CHINESE HARVESTS DURING THE YEAR AND THE AVAILABILITY OF THESE COMMODITIES FROM OTHER SUPPLIERS. IF PEKING HAS TO TURN TO THE UNITED STATES FOR THESE AGRICULTURAL PRODUCTS, US EXPORTS WOULD JUMP TO A MUCH HIGHER LEVEL.

4. IN GENERAL, UNTIL FULL DIPLOMATIC RELATIONS ARE ESTABLISHED, PEKING WILL PROBABLY CONTINUE TO RESTRICT IMPORTS FROM THE UNITED STATES WHEN ALTERNATIVE SUPPLIERS ARE AVAILABLE. PEKING NONETHELESS RETAINS GREAT INTEREST IN US TECHNOLOGY, PARTICULARLY IN THE AREAS OF PETROLEUM EQUIPMENT AND COMPUTERS.

5. US STRATEGIC CONTROLS ON SOPHISTICATED EQUIPMENT WILL CONTINUE TO HAMPER SALES AT THE HIGHER END OF THE TECHNOLOGICAL SPECTRUM. US FIRMS WILL ALSO BENEFIT FROM SALES OF US TECHNICAL PROCESSES EMBODIED IN COMPLETE SETS OF FACTORY EQUIPMENT SOLD BY THIRD COUNTRIES. AS FOR CHINESE EXPORTS, LIMITED US DEMAND FOR MANY TRADITIONAL CHINESE GOODS, TARIFF AND NONTARIFF RESTRICTIONS, AND RISING US CONCERN OVER IMPORTS OF TEXTILES AND FOOTWEAR WILL INHIBIT GROWTH OF US PURCHASES FOR THE NEAR FUTURE. (CONFIDENTIAL).
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